

Banking Sector Developments January 2021

Release date: 28 May 2021

	Jan-21	Dec-20	Nov-20	Oct-20
Deposit rate (%)*	1.972	1.982	2.014	2.092
Lending rate (%)*	7.681	7.681	7.671	7.701
Total Deposits (T\$m)	710.8	703.9	686.7	655.8
Total lending (T\$m)	494.5	495.4	496.5	494.0
New commitments (T\$m)	6.8	10.5	10.2	11.0
Broad Money (T\$m)	706.9	707.5	681.4	655.2

*Weighted Average calculated as a function of interest rate and volume of deposits and loans

Total deposits remain high

Broad money

Broad money slightly fell over the month of January 2021, by \$0.6 million (0.1%). This resulted from the decline in net domestic assets from higher government deposits offsetting the higher net foreign assets from the receipts of government loans and grants over the month.

However, over the year, broad money rose by \$114.5 million (19.3%) to a total of \$706.9 million, solely driven by higher foreign reserves. The receipts of budget

support and donor funds during the year to support Tonga's recovery from COVID-19 and TC Harold boosted the foreign reserves. These receipts also increased the government deposits, thus lowering net domestic assets annually.

Liquidity

Liquidity in the banking system increased further during January 2021 by \$2.1 million (0.5%) and over the year by \$123.6 million (41.0%). The commercial banks' ESA (Exchange Settlement Account) increased the most and coincided with the rise in the commercial banks' deposit to the Reserve Bank vault. Required reserves also increased, corresponding to an increase in total deposits. Currency in circulation, however, decreased over the month but rose annually.

	Level as at			Change over the last	
	Jan-21 \$TOPm	Dec-20 \$TOPm	Jan-20 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	706.9	707.5	592.5	-0.1	19.3
Currency in circulation	88.4	94.7	61.8	-6.6	42.9
Demand deposits	257.2	256.5	210.0	0.3	22.5
Savings and term deposits*	361.4	356.4	320.6	1.4	12.7
<i>equals</i>					
Net foreign assets	735.1	705.9	495.7	4.1	48.3
<i>plus</i>					
Net domestic assets	-27.0	2.4	97.2	-1202.9	-127.7
Gross bank lending**	496.1	496.9	501.0	-0.2	-1.0
Public enterprises	56.8	56.4	63.9	0.7	-11.2
Private Sector	437.3	438.3	434.3	-0.2	0.7
Other financial corporations	2.0	2.1	2.7	-4.5	-25.5
Other***	-523.1	-494.5	-403.8	5.8	29.5

* Also includes very minor amounts for securities other than shares.
** Differs slightly from standard measures of bank lending by amounts classified as accrued interest.
*** Includes mostly capital accounts of the banks and NRBT, and their net claims on the central government.
Sources: Banking system; NRBT

Lending

The banks' total lending decreased in the month and the year to January 2021 by \$0.9 million (0.2%) and \$6.1 million (1.2%), respectively. The drop in household loans drove the monthly decline, whilst decreases in both businesses and household loans contribute to the annual decline. These declines reflect the high uncertainties of COVID-19 impacting both the banks' willingness to lend further and businesses and households' appetite to borrow.

Business lending

Business loans slightly rose over the month by \$0.1 million (0.05%). However, they declined in the year to January 2021 by \$3.3 million (1.4%) to a total of \$236.4 million. Lending to businesses in the utilities, tourism and transport sectors, and public enterprises increased over the month, whilst lending to public enterprises and businesses in the manufacturing, professional & other services and fisheries sectors decreased annually.

Household lending

Lending to households decreased over the month and year to January 2021 by \$1.0 million (0.4%) and \$2.8 million (1.1%), respectively, to a total of \$258.1 million. All categories of household loans fell over the month, mostly housing loans, other personal loans, and vehicle loans. Over the year, the decrease in other personal loans drove the annual decline in household lending.

Non-bank financial institutions

The total loans extended to the non-bank financial institutions slightly declined over the month by \$0.3 million (0.4%) yet rose annually, by \$3.1 million (5.2%) to \$63.2 million. These loans are mostly offered to individuals in the informal and small-medium-sized enterprises (SMEs), indicating better access to loans by SMEs.

Non-performing loans

In January 2021, the non-performing loans slightly rose to 3.95% from 3.94% last month and 3.32% in January of last year. The increase is attributed to non-performing loans in the fisheries, agriculture and education sectors as well as households' other personal loans. This reflects the impact of COVID-19 on the agricultural and fisheries sectors and their ability to repay their loans.

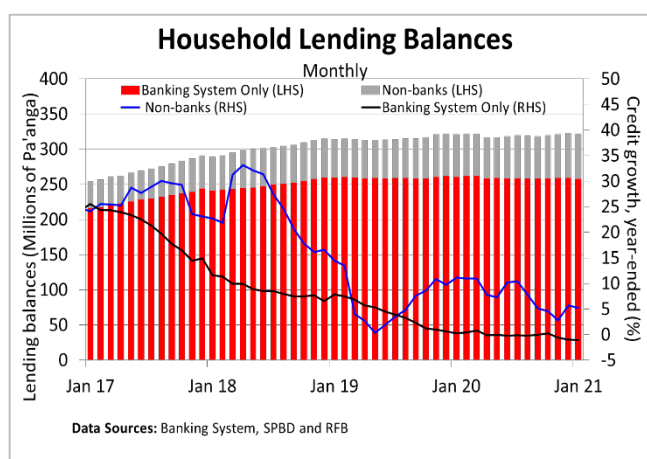
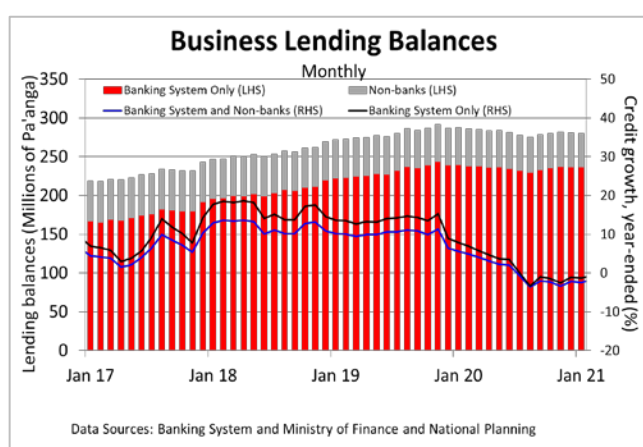
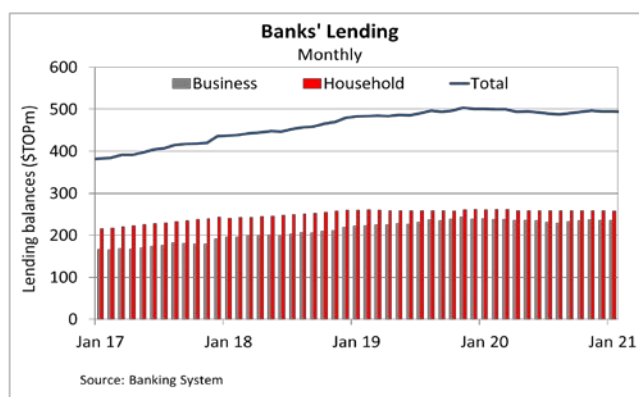


Table 2: Lending Balances (including new commitments)

	Level as at:			Change over the last:		Shares of totals %
	Jan 21 TOPm	Dec 20 TOPm	Jan 20 TOPm	1 month %	1 year %	
Lending, banks	494.5	495.4	500.7	-0.2	-1.2	100.0
Household	258.1	259.1	261.0	-0.4	-1.1	52.2
Business*	236.4	236.3	239.7	0.05	-1.4	47.8
Other	0.0	0.0	0.0	0.0	0.0	0.0
Lending, banks and other	601.5	603.2	608.2	-0.3	-1.1	100.0
Household**	321.3	322.6	321.0	-0.4	0.1	53.4
Business	280.2	280.5	287.2	-0.1	-2.4	46.6
Other	0.0	0.0	0.0	0.0	0.0	0.0
New commitments, banks	6.8	10.5	12.2	-34.8	-44.0	N/A
Undrawn commitments, banks	9.3	10.6	15.4	-11.8	-39.5	N/A
Implied repayments, banks	1.3	10.8	11.6	-88.4	-89.2	N/A

* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data

** Method for calculating these series was updated in January 2020, resulting in revisions to the full history of data

Sources: SPBD; RFB; MOFNP; Banking system

Deposits

In January 2021, the banks' total deposits rose again, reaching a total of \$710.8 million. This was attributed mainly to an increase of \$7.0 million (1.0%) in the month and \$106.5 million (17.6%) over the year. The monthly rise was driven mainly by higher churches' time deposits, retirement funds' savings deposits, and public enterprises' demand deposits. Over the year, public enterprises' demand deposits grew significantly, followed by increased time deposits from churches and central government as well as individuals saving deposits. The increase in demand deposits over the year coincides with the higher demand deposit rates over the year.

The decline in total lending coupled with the increase in deposits, lowered the loans to deposit ratio in January 2021 to 67.8% from 68.6% last month. This remains below the minimum level of 80%, indicating more liquidity available in the banking system for further lending. However, lending will likely remain subdued in the near term due to the uncertainties from COVID-19.

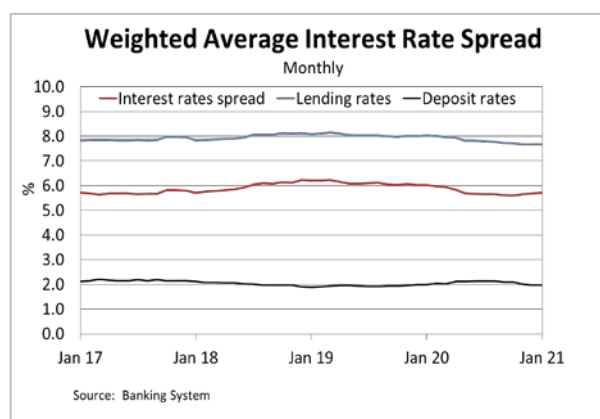
Table 3: Deposit Balances

	Monthly				Annual		
	Jan-21	Dec-20	Change	%	Jan-20	Change	%
Total Deposits (\$ in million)	710.8	703.9	7.0	1.0	604.3	106.5	17.6
Demand Deposits	304.8	302.8	2.0	0.7	254.9	49.9	19.6
Saving Deposits	126.4	124.8	1.6	1.3	101.3	25.1	24.8
Time Deposits	279.6	276.3	3.3	1.2	248.1	31.5	12.7

Sources: Banking Systems; NRBT

Interest rate spread

In January 2021, the weighted average interest rate spread widened again by 1.0 basis points as both the weighted average deposit and lending rates declined over the month. The decrease in deposit rates offset the fall in lending rates due to the decline in all three categories of deposits. Time deposit rates decreased the most, mainly for short term deposits (3 months to 1 year), followed by lower demand and saving deposit rates. The slight decrease in weighted average lending interest rates over the month stemmed mostly from lower



interest rates on loans to professional & other business services, agriculture, and households' vehicle loans.

The weighted average interest rate spread narrowed by 32.8 basis points to 5.709% in year ended terms. This resulted mainly from lower weighted average lending rates on loans to households for other personal loans and businesses in the mining & quarrying, construction, and utility sectors. On the other hand, deposit interest rates slightly declined mainly for term and saving deposit rates.

Weighted average of all banks						
	Level as at			Change over the last [^]		Share of loans/deposits %
	Jan-21 %	Dec-20 %	Jan-20 %	1 month bps	1 year bps	
Interest Rate Spread	5.709	5.699	6.037	1.00	-32.84	
Deposits all	1.97	1.98	2.00	-1.04	-2.42	100
Demand	0.33	0.33	0.32	-0.59	0.97	40
Savings	2.53	2.54	2.55	-0.56	-2.13	19
Term	3.33	3.36	3.45	-3.48	-11.96	41
Loans all	7.68	7.68	8.03	-0.05	-35.26	100
Housing	8.06	8.06	8.04	0.22	1.97	42
Other personal	11.33	11.33	11.38	-0.37	-5.03	11
Business	7.11	7.10	7.91	0.68	-79.58	31
Other	0.00	0.00	0.00	0.00	0.00	17

*Method for calculating these series was updated in August 2014, resulting in revision to the full history of data

[^]Due to rounding errors some data may not aggregate precisely

Sources: Banking Systems; NRBT

Outlook

The NRBT continues to expect credit growth to remain subdued in the near term, underpinned by the uncertainties of the COVID-19 pandemic, weakening investment appetite, and softening aggregate demand. Nonetheless, the current accommodative monetary policy stance encourages banks to utilize excess liquidity in the banking system for further lending to support economic recovery and growth. On the other hand, the Reserve Bank is working closely with the commercial banks to ensure adequate provisions for any upcoming shock to the financial system, particularly with the anticipated rise in non-performing loans once banks withdraw their relief packages for affected COVID-19 customers.

The Reserve Bank will continue to ensure financial and macroeconomic stability by closely monitoring all monetary indicators.